

# Is the credit union pioneer spirit gone?

Some people say the National Credit Union Administration's (NCUA) pursuit of safety and soundness gives credit union philosophy a backseat. Some say bank and savings and loan (S&L) executives snapping up credit union jobs put profit ahead of service. Still others point to overlapping fields of membership and competition among credit unions as eroding the spirit of cooperation.

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We asked John Deese, president/chief executive officer (CEO) of The Credit Union of Palm Beach County in West Palm Beach Fla., Edward Gallagly, president/CEO of Florida Central Credit Union in Tampa, and Nancy Pierce, president/CEO of Federal Employees Credit Union in Kansas City, Mo., to comment on credit union philosophy today.

**CU Mag:** Is the credit union pioneer spirit gone?

**Gallagly:** It's not gone. It exists to a degree. But far too many credit unions are preoccupied with the bottom line rather than with member service and philosophy. And with regard to small credit unions, the pioneer spirit is in serious jeopardy. Small credit

unions are an endangered species.

**Pierce:** I define the pioneer spirit as the fervor it takes to organize new credit unions. Based on that, it's probably not so much dead as in a state of dormancy because it's become so difficult to organize new credit unions. It took more than four years to organize Denver (Colo.) Community Development Credit Union. It takes an enormous amount of dedication to put up with four years of frustration.

**Deese:** I definitely don't think the pioneer spirit is gone. Looking at it internationally, there are several examples of people helping people develop credit union systems in Poland and Europe.

The Credit Union Development Education Program works to spread the good news and show what a difference credit unions are making around the world. We've seen changes in the movement, and it's matured. But we're still willing to reach out to our neighbors and show them that the pioneer spirit is alive.

**Gallagly:** I agree that credit unions are doing a commendable job on the international scene. We're assuaging our guilt in this country by playing a part in the international movement because the philosophy is diminishing in the United States.

**CU Mag:** What about Ed's challenge that small credit unions are in jeopardy?

**Pierce:** The Credit

Union System in Missouri is working diligently to keep all credit unions alive, including small ones. So, at least in Missouri, I don't see small credit unions as endangered.

**Gallagly:** I disagree. Small credit unions are endangered in every state I've looked at. We had 650 credit unions in Florida when I was league president. Now we're down to less than 300. We had 65 credit unions in our chapter. Now there are about 20. The handwriting is on the wall, and you can't blame it all on the regulator. Much of it's due to the apathy that's crept into the movement.

**Pierce:** I agree that the numbers are declining. But I still disagree that there's a movement to do away with

small credit unions. There's a place for them. There's a role for them. They're fulfilling that role, and I believe they'll continue to survive.

**Deese:** I think there's some concern about small credit unions. But people throughout the movement recognize that small credit unions are valuable and serve an important purpose in our movement. A good example of this occurred recently in central Florida. A community development credit union was in trouble. Credit unions in the area petitioned NCUA and offered managerial expertise and other assistance to help the credit union survive. And it's thriving today.

**Cu Mag:** You mentioned the regulator a couple of times already. Does NCUA hamper or help credit union philosophy?

**Gallagly:** The regulator is a pendulum that swings from reasonable to almost op-

pressive. And the pendulum has been as far on the over-regulatory side as possible. Obviously, the regulator is concerned about safety and soundness, but it's been overdone. It's time our trade associations and leagues see that we don't lose a good thing.

By the same token, it's easy and convenient to blame NCUA for our eroding philosophy. But we need to look at what credit unions are evolving into—financial institutions serving highly affluent, middle-class Americans, with diminishing concern about people with low and moderate incomes.

**Pierce:** I agree that the regulatory pendulum has swung to a state of oppressiveness. But as a result, credit unions are emerging stronger than ever, with higher capital ratios and better asset quality. Credit unions are in a position where they can return to their original mission of

helping members. And I believe we're starting to see that.

**Deese:** I, too, believe that NCUA has been somewhat heavy-handed. But NCUA and the National Credit Union Share Insurance Fund were born under the concept of stronger regulation and better control, and they've done that. Our industry is a shining star to others. And while we don't want NCUA to come in and micro-manage our credit unions, the regulators have done some positive things. But the time has come for them to lighten up.

**Cu Mag:** Some people say banking and S&L executives coming into credit unions bring with them an emphasis on profit and self-interest vs. service. If this is so, what's the effect of their profit orientation?

**Pierce:** I can speak from personal experience. We have three managers on staff that

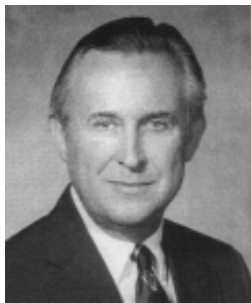
came from banks, and there's no problem. In fact, these people probably are our most vocal employees about keeping our credit union true to its mission and philosophy. They understand the credit union difference and maybe even appreciate that difference more than those of us who came straight into the movement.

**Deese:** I have concerns about this. But I think the situation poses an opportunity for those of us who believe in credit union philosophy and what the movement stands for. We must educate outsiders and get them involved. We must reach out to them so they don't close themselves off. Invite them to chapter meetings or to lunch. Once they know what credit unions stand for, they're quick to latch on. It's our responsibility to introduce them to our philosophy.

**Gallagly:** We have learned at least one thing from bankers: that good service and a strong bottom line are compatible. On the other hand, many credit unions have hammered away at this issue and decided that serving people of low and moderate incomes is too labor-intensive, too expensive. They're avoiding the very people for whom credit unions were originally created. To quote the preamble of the Federal Credit Union Act, the mission of credit unions is "to make credit available to people of small means."

**Cu Mag:** What kind of job are credit unions doing serving people of modest means?

**Gallagly:** We're doing a fair job at best. The average W-2 of a credit union



### Edward Gallagly

*Gallagly is president/CEO of the \$89 million asset Florida Central Credit Union in Tampa. He serves on the Filene Research Institute's Advisory Council and is a director of the Community Service Credit Union Council, both in Madison, Wis. He was president of the Florida League, chairman of the Florida Credit Union Service Corp., and president of the Southeast Corporate FCU.*



### Nancy Pierce

*Pierce is president/CEO of the \$110 million asset Federal Employees Credit Union in Kansas City, Mo. She's vice chair of the Missouri Credit Union League, a member of CUNA's Governmental Affairs Committee, vice chair of CUNA's State Regulators Task Force, and a member of the Filene Research Institute Council.*



### John Deese

*Deese is president/CEO of the \$30 million asset The Credit Union of Palm Beach County in West Palm Beach, Fla. He's a CUNA Board member, a development educator, and past chairman of the Florida Credit Union League and Florida Service Group, Inc.*

member is close to \$43,000. Our No. 1 priority, through Credit Union Moonshot<sup>sm</sup>, should be to reach the 30 million to 50 million Americans who don't have access to basic lifeline financial services,

**Pierce:** I agree that credit unions aren't doing a good job serving low- to moderate-income people. That's evidenced by the check-cashing kiosks, pawn shops, and instant-credit shops that are flourishing throughout this country.

**Deese:** We're reaching out to some people in the segment, however. According to a CUNA survey, nearly 12% of our members have annual incomes of \$20,000 or less. We may not be doing as good a job as we should, but we're recognizing that and trying to do something about it. We're already seeing more credit unions trying to help people with lower incomes.

**Pierce:** There's a desire among credit unions to be more conscious of their roles within the community. But at the same time, credit unions need to know what it takes to set up programs to provide financial services to low- or moderate-income groups. One Missouri credit union budgets money to make loans to members who need loans but don't meet the credit union's creditworthiness standards. They also set aside additional reserves to protect against any increase in losses. It's this kind of program that more credit unions must provide.

**Gallagly:** Some credit unions feel less guilty by throwing a few pennies to community development credit unions (CDCUs). Chartering another 400 CDCUs

isn't the answer. The answer lies within the 13,000 existing credit unions making a conscious decision to change and to cooperatively address this problem.

**CU Mag:** There's always been cooperation among credit unions. As fields of membership overlap and there's more competition for members' business, is this spirit of cooperation waning?

**Pierce:** In Missouri, the cooperative spirit is alive. We promote the concept of plenty to counter any threat to the cooperative spirit. In Missouri, there are four million nonmembers to one million members. So, there's nothing to fight about. There are plenty of nonmembers for every credit union in the state.

**Deese:** I was in a meeting last week, and one of the participants had come to a credit union from a bank. He said he couldn't believe how open everyone was about sharing their secrets. He said that would never happen at a meeting of bankers. So in one sense, cooperation is still there. There is concern, however, that competition is heating up and causing some problems. In one area of Florida, credit unions asked the league to adopt an ethics policy. We need to keep competition from getting to the point where it stops cooperation. If we don't, that's a greater threat to credit unions than anything else they face.

**Gallagly:** Overlapping fields of membership means competition, which, in my opinion, has been excellent for the credit union movement. The ultimate benefactors of competition are our members. Four CEOs of other credit unions serve on my

credit union board and committees. We compete ferociously with each other. It's healthy.

**CU Mag:** Are you saying that credit unions can compete and cooperate at the same time?

**Gallagly:** Absolutely.

**Deese:** I'm not so sure. I think it works up to a point. If competition gets too heated, credit unions won't cooperate any better than bankers do.

**Gallagly:** Let's not kid ourselves into thinking that banks don't cooperate. When their interests are threatened, they cooperate.

**Pierce:** I'd like to think it's possible to compete and cooperate. But I'm not convinced of it when I hear stories of credit unions suing one another over fields of membership.

**Cu Mag:** Do modern services, such as indirect auto lending relationships with dealers, jeopardize credit union philosophy?

**Deese:** We must continue to provide services our members want, especially because more members look to us for all of their financial services. But there's a concern that if the differences between credit unions and banks become fewer and fewer, legislators will perceive credit unions to be just like banks. So we must be careful.

**Gallagly:** Modern services—including indirect auto lending—are absolutely essential if credit unions are going to survive. Credit union members expect the best, and they deserve it. Good service and credit union philosophy go hand in hand.

**CU Mag:** What is credit

union philosophy today, and is it what it should be?

**Pierce:** I still like the people-helping-people philosophy. Credit unions have debated philosophy since their origins. The early pioneers debated the erosion of philosophy and complained about self-serving credit unions and narrow-minded thinking. Credit union ideology is built on the spirit of cooperation, where you choose the option that promotes the group over personal interests. That's a pretty difficult standard to live up to. As long as we debate the issue of philosophy, it will exist.

**Gallagly:** Well put, Nancy. Credit union philosophy today isn't what it was 25 years ago or even 15 years ago. It's evolving. And for the most part, credit unions are doing what they were designed to do.

But while we've done an admirable job over the years, about 30% of Americans who need us—I mean really need us—are being denied the opportunity to belong to a credit union. Somehow we must cooperatively relight the torch on the spirit of credit union philosophy. It's alive, but it's flickering.

**Deese:** Philosophy is what you make it. If you believe in what the system stands for and you believe in the people-helping-people concept, that's your credit union's philosophy. It's up to each credit union to set its philosophy. And it's up to the movement to make sure credit unions understand the importance of adopting a philosophy that's based on people helping people. ♦

